

RURAL HOUSING SERVICE

Statement of Russell T. Davis, Administrator of the Rural Housing Service, before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies.

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to present the Fiscal Year (FY) 2007 President's Budget for the USDA Rural Development rural housing and community facilities programs.

As an integral part of Rural Development, the rural housing programs assist rural communities with a wide array of single and multi-family housing options to residents of rural communities. We also help to fund medical facilities, fire and police stations, childcare centers, and other essential community facilities.

The proposed budget for rural housing and community facilities programs in FY 2007 supports a program level of approximately \$6.27 billion in loans, loan guarantees, grants, and technical assistance. It also maintains the Administration's strong commitment to economic growth, opportunity, and homeownership for rural Americans. We believe that our efforts, combined with the best of both the non-profit and private sectors, will ensure that this budget makes a tremendous difference in rural communities. The FY 2007 Budget also includes a major initiative to revitalize the rural rental housing programs.

Let me share with you how we plan to continue improving the lives of rural residents under the President's FY 2007 Budget proposal for our rural housing programs.

Program Highlights

I am pleased to provide you with an update on several highlights from our major programs, as well as key initiatives being undertaken.

In Fiscal Year 2005, we were instrumental in the Federal response efforts to hurricanes Katrina and Rita. Immediately following the hurricanes we had our people who were already living in the gulf States coordinating relief efforts and assisting evacuees with their housing needs. Our Multi-Family Housing program was able to place about 10,000 individuals or nearly 4,000 hurricane evacuee families nationwide and was able to offer approximately \$17 million in emergency Rental Assistance. In our Single Family Housing program, we provided immediate housing payment moratoriums for over 18,000 of our affected borrowers, suspended foreclosure actions, and opened up our single family housing inventory properties nationwide in order to place some evacuees. We are continuing to provide relief and assistance through aggressive loan servicing, and new loans and grants in the affected areas.

In December 2005, the Department of Defense Appropriations Act for 2006 provided some relief for areas affected by the hurricanes of 2005. The legislation provides approximately \$175.593 million in program level for section 502 direct single family loans, \$1.293 billion in program level for section 502 guaranteed single family loans, \$34.188 million in program level for section 504 home repair loans, and \$20 million for section 504 home repair grants. In addition to funding, Congress gave Rural Development flexibility within their current statutes and regulations to meet the needs of those affected by the hurricanes.

We will soon be announcing details for the rural housing voucher demonstration program and expanded revitalization demonstration program that were authorized in the 2006 Appropriations Act. We expect to have these programs fully underway within the next few months.

Multi-Family Housing Programs

The Multi-Family Housing (MFH) budget preserves Rural Development's commitment to maintaining the affordable housing for the many rural Americans who rent their homes. Our existing portfolio provides decent, safe, sanitary, and affordable residences for about 470,000 tenant households.

The total program level request is \$825.4 million. Four hundred and eighty-six million dollars will be used for rental assistance (RA) for contract renewals, farm labor housing, and preservation. These funds will renew more than 46,000 2-year RA contracts.

The FY 2007 budget also requests funds for a program level of \$41.6 million in loans and \$13.9 million in grants for the Section 514/516 Farm Labor Housing program, and program level of \$1.5 million in loans for credit sales, and \$9.9 million for housing preservation grants.

Multi-Family Housing Revitalization

The FY 2007 budget extends the Administration's proposal to revitalize USDA's multi-family housing projects by providing \$74.2 million for rural housing vouchers for tenants of projects that have withdrawn from the program. Upon enactment of legislation the

Administration has already submitted to Congress, these funds could also be used to provide incentives for project sponsors to stay in the program and make essential repairs and rehabilitations.

We anticipate our revitalization efforts will span the next several years and have initiated a demonstration program using existing authority during FY 2005 to test the viability of the revitalization concepts. The demonstration validated some of the basic revitalization concepts and helped us identify an efficient process for implementing the FY 2006 demonstration program and preparing for the full scale implementation of the revitalization initiative. The 2005 demonstration effort will revitalize 22 rental properties through 12 transactions in the States of Missouri, Wisconsin, Louisiana, Arkansas, and Georgia. Through these efforts, 559 tenant families will continue to live in affordable rental housing. Eight of the transactions have closed and we will complete the remaining shortly.

Section 538 Guaranteed Rural Rental Housing Program

The FY 2007 budget request will fund \$198 million in section 538 guaranteed loans, funds that may be used for new construction and repairing 515 properties. The section 538 guaranteed program continues to experience ever-increasing demand and brisk growth, and is rapidly becoming recognized within the multi-family housing finance, development, and construction industry as a viable conduit to facilitate the financing of housing projects.

In FY 2005, we distributed more than \$97 million in guarantees to fund housing projects that attracted over \$338 million in other sources of funds. The risk exposure to the government

continues to be very low, as loan guarantees to total development costs are well under 30 percent. We also have a delinquency rate of zero. Over 90 percent of the applications were awarded Low-Income Housing Tax Credits from the various State governments where the projects were located. This type of leveraging helps ensure that properties are affordable for low-income families.

Since inception of the program, the section 538 guaranteed program has closed approximately 100 guarantees totaling over \$185 million. These closed guarantees will provide over 4,500 rural rental units at an average rent per unit of approximately \$500 per month. In addition, the program has more than 100 applications in the works.

The rural housing program recently published a final rule on January 19, 2005, to address program concerns from our secondary market partners and to make the program easier to use and understand. The FY 2007 proposed budget of \$198 million will enable Rural Development to fund a significant number of additional guaranteed loan requests.

Single Family Housing Programs

The Single Family Housing (SFH) programs provide several opportunities for rural Americans with very low- to moderate-incomes to purchase homes. Of the \$4.80 billion in program level requested for the SFH programs in FY 2007, \$3.56 billion will be available as loan guarantees of private sector loans, including about \$99 million for refinancing more affordable loans for rural families. Also, with \$1.237 billion available for direct loans, an increase of 10 percent over the 2006 enacted level, our commitment to serving those most in need in rural areas

remains strong. This level of funding will provide homeownership opportunities for approximately 40,760 rural families.

Effective outreach and a quality guarantee product, coupled with low interest rates, have increased demand for the section 502 guaranteed program. Currently, approximately 2,000 lenders participate in the guaranteed SFH program. The competitive low-interest rate environment has enabled the rural housing program to serve low-income families, who would typically receive a section 502 direct loan, with a guaranteed loan instead. To help decrease the Federal cost of this program, we are requesting the authority to charge up to a 3 percent guarantee fee for purchase loans. Without the proposed fee change the budget authority requested will support only \$601 million in loans compared to \$3.56 billion available if the 3 percent fee were in place. In addition, we are ensuring that this program is not redundant with other Federal guarantee housing loan programs by requiring that the lender certify that the borrower does not qualify for another guarantee that the lender offers and that they would not issue the loan without the guarantee.

Section 523 Mutual and Self-Help Housing

The President's FY 2007 Budget requests \$37.6 million for the mutual and self-help housing technical assistance program, an increase of twelve percent over FY 2006 levels.

The FY 2005 ended with over \$42 million awarded for contracts and two-year grants. There were 39 "pre-development" grants awarded in FY 2005, including many first-time sponsors, several faith-based groups, and groups in States with no self-help housing programs.

Pre-development funds may be used for market analysis, determining feasibility of potential sites and applicants, and as seed money to develop a full-fledged application. Groups in the pre-development phase typically need 6 to 12 months before they are ready to apply for full funding.

The FY 2007 proposed budget also includes approximately \$36.4 million in program level for home repair loan funds and \$29.7 million for grants to assist elderly homeowners. It also includes approximately \$5 million in loan level for each of two site loan programs, \$10 million in loan level for sales of acquired properties, and approximately \$990 thousand for supervisory and technical assistance grants.

Community Programs

The Community Facilities budget request will provide essential community facilities, such as educational facilities, fire, rescue, and public safety facilities, health care facilities, and child care centers in rural areas. The total requested program level of \$521.7 million includes \$297 million for direct loans, \$207.9 million for loan guarantees, and \$16.8 million for grants.

In partnership with local governments, State governments, and Federally-recognized Indian Tribes, the FY 2007 budget will support more than 300 new or improved public safety facilities, 125 new and improved health care facilities, and approximately 90 new and improved educational facilities to serve rural Americans.

In FY 2005, we invested over \$163 million in 155 educational and cultural facilities serving a population totaling over 1.8 million rural residents, over \$136 million in 523 public safety facilities serving a population totaling over 2.4 million rural residents, and over \$426

million in 166 health care facilities serving a population totaling over 2 million rural residents. Funding for these types of facilities totaled \$725 million. The remaining balance was used for other essential community facilities such as: food banks, community centers, early storm warning systems, child care centers, and homeless shelters.

Conclusion

Through our budget, and the continued commitment of President Bush, rural Americans will have the tools and opportunities they can put to work to improve both their lives and their communities. We recognize that we cannot do this alone and will continue to identify and work with partners to improve the lives of rural residents.

I would like to thank each of you for your support of the rural housing and community facility programs' efforts. I look forward to working with you in moving the FY 2007 Budget forward, and welcome your guidance as we continue our work together.